Annual Report
1968

TransCanada PipeLines Limited

TransCanada PipeLines

A New Look at TransCanada

It is appropriate that the new Trans Canada corporate identification is introduced with this Annual Report which marks the Tenth Anniversary of the operation of your Company. This program means for Trans Canada a new symbol, a new signature or corporate name style and new specifications for the corporate colours. The program was adopted only after comprehensive study and is intended to visually reflect a modern progressive company as it moves in a forward direction.

It has been said that there has been more change in the world in the last twenty years than in the previous hundred—and with these advances in engineering technology and business management much corporate identification of the past must be changed to match the new demands.

Communication by Design

In simplest terms, the visual image of the corporation should honestly reflect its management policies and the technical prowess that have contributed to its progressive growth and continuing vitality.

The dynamic growth of Canadian corporations over the past decade has in certain instances surpassed the same corporations' ability to make themselves clearly seen by those who watch their progress.

The New Corporate Symbol and Signature

When TransCanada looked at the old symbol it was found to be no longer as modern as the Company. The new TransCanada symbol contains qualities of visual strength, functional efficiency and appropriateness of purpose.

The new symbol depicts a pipeline spanning a circular background which is symbolic of Canada. The end of the pipe is portrayed in blue, the traditional symbolic colour for natural gas.

The new TransCanada signature style joins the present four words into two—for improved visual impact. The style of the signature itself reflects the tubular forms of the company's pipelines.

The new gold, blue, black and white colours utilize functional colour dynamics to make the company's property easily recognizable.

Planned for Accumulative Impact

The accompanying photographs show various aspects of the new TransCanada corporate identity program. They show the tools of the TransCanada corporate identification being used consistently and effectively so that the Company's contribution to Canada will be more generally recognized.


TransCanada PipeLines
TransCanada PipeLines Limited


Visitors must report to Office
Safety first wear your Hard Hat
By all means Prevent Accidents
This district has worked 979 days
without a lost time injury
The best previous record was 301 days


TransCanada PipeLines
Compressor
Station

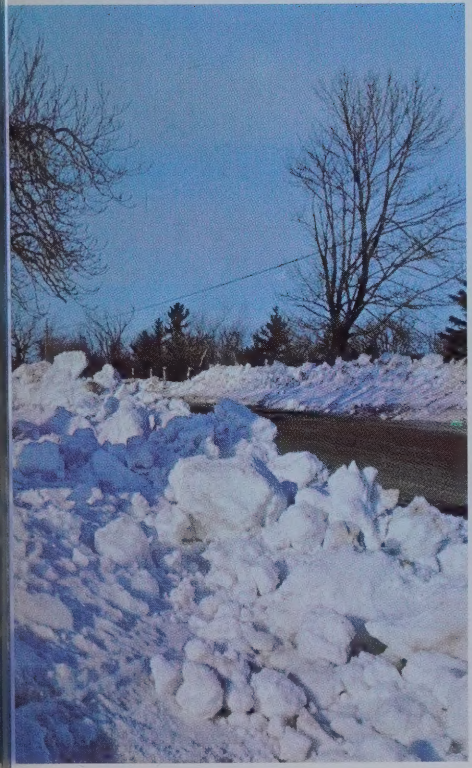
Some of the applications for the Company's new corporate identification are shown on these pages.

Left: A heavy duty truck in new colours and with the new identification.

Lower left: New entrance sign at a compressor station office.

Below: Compressor station sign at highway turn-off.

At right: A field worker wearing construction hard hat with new colours and insignia.



Operations	1968	1967
Operating revenues	$195,658,773	$168,122,205
Operating profit	38,347,892	37,175,994
Net income	17,273,598	14,859,093
Funds provided from operations	32,771,379	29,949,946
Dividends declared		
Preferred shares	4,883,703	2,800,000
Common shares	8,241,726	8,229,449
Net income per common share		
On average shares outstanding during year	1.53	1.47
On shares outstanding December 31	1.53	1.46
Dividends declared, common shares	1.00	1.00
Gas Sales (millions of cubic feet)		
Annual volume	516,000	439,000
Maximum day, natural gas delivered for sale and transportation	2,045	1,694
Gas Transmission Plant (at December 31)		
Gross plant	$727,363,224	$647,578,891
Miles of pipeline (including loop line)	3,425	3,107
Number of compressor stations	46	46
Compressor horsepower	710,560	643,360

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Common shares

Share distribution as of December 31, 1968

	No. of shareholders	No. of shares
Newfoundland	42	3,186
Prince Edward Island	70	3,737
Nova Scotia	655	68,559
New Brunswick	432	30,949
Quebec	3,652	2,672,343
Ontario	12,894	2,533,846
Manitoba	1,798	242,387
Saskatchewan	1,004	87,772
Alberta	3,602	1,737,982
British Columbia	4,613	441,492
Yukon Territory	8	381
Total Canadian	28,770	7,822,634
U.S.A.	3,453	354,177
United Kingdom	153	55,494
Other countries	210	26,471
Overall total	32,586	8,258,776

James W. Kerr, Chairman and Chief Executive Officer *left* and Vernon L. Horte, President.

The year under review, 1968, was the most eventful year in the ten year operating history of Trans Canada. A new sales record was set, construction of the Great Lakes Gas Transmission Company system was completed, and many new plans for the future of your Company were launched. All the developments of 1968 augur well for the future of TransCanada.

Although the achievements of the first ten years of operation were greater than expected when the Company was conceived, the next decade appears to hold exciting prospects for continued dynamic growth and development. It seems appropriate that after its first ten years of operation, when the Company is entering a new era of expansion, that there should be a new look in the form of a new corporate symbol and a new corporate signature.

During 1968, operating revenues increased 16% to $195,658,773. Net income was $17,273,598 compared with $14,859,093 in 1967, an improvement of 16%. After provision for dividends on preferred shares, net income available for common shares was $12,625,931. On a volume basis, total sales increased 17.5% to 516 billion cubic feet and the average daily throughput was a record 1,410,000 Mcf, up 17% from 1,203,000 Mcf per day in 1967. Another new record was established late in 1968 when 2,045,000 Mcf was sold and transported in a single day. This is substantially in excess of the peak day established in 1967.

Net income per common share was $1.53 compared with $1.46 the previous year, based on shares outstanding at the end of the year. Dividends of $1.00 per share were continued during 1968 on the common shares.

It is gratifying to your Directors to reflect on the significant growth that has been achieved during the first ten years of operation of the Company from 1959 through 1968.

During this period:

- the value of gas transmission plant increased from $262,086,763 to $727,363,224;
- mileage of installed pipeline increased from 2,290 to 3,425 miles;
- horsepower installed at compressor stations increased from 75,500 to 710,560 hp;
- volume of gas sold increased from 74.5 to 516 Bcf;
- total revenues increased from $29,589,100 to $195,658,773.

In this ten year period net income applicable to common shares has progressed from a loss of $8,410,511 to a profit of $12,625,931. TransCanada's pipeline system has developed into one of the most modern and efficient in North America and TransCanada's cost of transportation of natural gas is among the lowest that has been achieved to date.

By the end of last October, the construction of the Great Lakes Gas Transmission Company system had been completed. This great international project means that significant additional volumes of western Canadian gas can now be transported to eastern Canadian markets by the shortest possible route. Although the Great Lakes system has experienced some initial start-up difficulties, the existence of this new 1,000 mile pipeline means that the fast growing markets in eastern Canada and the U.S. middle west can also be served with continuing efficiency.

The plans and achievements of 1968 have prepared the way for another period of great expansion. The first major step occurred in early 1969 in connection with the Company's gas supply. During the past few weeks, after intensive negotiation with many Alberta producers, your Directors are very pleased to advise that the Company has entered into long term gas

purchase contracts which provide for the purchase of large volumes of gas in the rapidly developing Strachan, Bragg Creek and Whiskey Creek areas of Alberta. It is expected that further exploratory and development drilling now under way in these areas will result in a major new source of gas supply for your Company. In the immediate future an application for a permit to remove this additional gas from Alberta will be filed with the Oil and Gas Conservation Board of that province.

During 1968 and prior to the significant new gas supply developments in the foothills area, Trans Canada obtained a permit from the Province of Alberta to remove an additional 2.1 trillion cubic feet. TransCanada has always maintained a very substantial supply of gas in western Canada. With these new purchases, large volumes of gas are now available for sale in Canada east of Alberta, and plans are actively under way for substantial additional sales of surplus Canadian gas in the markets of the American middle west.

This expanded gas supply assures TransCanada of a substantial increase in future sales and further significant annual increases will commence in 1969 when sales are expected to increase over 15% to a volume in excess of 600 Bcf. The impact of these large additional sales on annual operating results will also be favourable.

Four natural gas discoveries and one oil discovery were made by Banner Petroleums Limited, a wholly-owned subsidiary, in Alberta during 1968. At year-end Banner held petroleum and natural gas rights in 462,544 net acres. Since the beginning of 1969 two additional gas discoveries and one oil discovery have been made. In addition, Banner has recently acquired a 40% interest in over three million acres in Hudson Bay.

The 1968 construction program in Canada was completed on schedule at a cost of $80,000,000. Another large program will be undertaken in Canada in 1969 at an estimated cost of $60,000,000. This year's program will include the construction of over 167 miles of 36 inch loop line between Burstall, Saskatchewan and Emerson, Manitoba and the Company is approaching the completion of its second loop line, or third pipeline, as far east as Winnipeg. In addition, substantial expenditures will be made in northern Ontario in connection with the sandblasting program for increased throughput and additional capacity in the northern Ontario section of the line.

The extraction of propane, butanes and natural gasoline from the Company's natural gas stream is an important facet of our affairs. The existing arrangement with Pacific Petroleums Limited involving the extraction plant at Empress, Alberta, provides for the extraction of natural gas liquids from the first one and one-half billion cubic feet of the stream. During 1968 the capacity of this existing plant was enlarged. To process the next one and one-half billion cubic feet of Company's gas stream, TransCanada has arranged to participate with Dome Petroleum Limited in the construction of a new natural gas extraction plant also at Empress, Alberta. The first phase of this new project is planned for completion in 1971.

The Engineering Department of your Company has on many occasions been asked to advise other companies on design and construction of pipelines and associated facilities. TransCanada's design data and methods have been requested by other interested parties primarily because new techniques and methods have been employed. Management has been pleased to acquire contracts for design and construction services in Australia, Michigan and Ontario, and prospects for additional work in Europe and Africa appear realistic at the present time. Accordingly, the Company has applied to incorporate International Pipeline Engineering Limited as a wholly-owned subsidiary to provide engineering and supervision of construction of pipelines and associated facilities. The Company is hopeful that this new subsidiary will gain further acceptance and obtain a substantial volume of business.

Associated with the prospect of continued expansion of the pipeline system and related activities and with the prospect of diversified activities, your Board of Directors authorized a realignment of senior management organization in December last year. Vernon L. Horte was elected President of the Company, and in this new capacity assumes greater responsibility for company operations. Mr. Horte was formerly Group Vice-President in charge of gas sales, gas supply, and the Company's planning functions, and brings a wealth of experience to his important new assignment.

As part of the restructuring of the management organization, George W. Woods, Group Vice-President, is now responsible for gas sales, gas supply and all financial affairs of the Company. Walter Hindle was appointed a Group Vice-President and is responsible for engineering, operations, planning and purchasing functions of the Company.

At the same time, James M. Cameron was appointed Vice-President and General Counsel and Robert G. Wall was appointed Vice-President and Treasurer.

In December the membership of the Board of Directors was increased from 19 to 21 and Vernon L. Horte and George W. Woods were appointed Directors.

While the future of the Company appears bright and opportunities for prosperous growth are now apparent, the high interest rates and uncertain U.S. and Canadian bond

markets cause concern for your Directors. To finance substantial future construction programs, large sums of capital will be required. Accordingly, the ability of the Company to achieve an adequate rate of return on its investment is the subject of continuing study.

The Canadian content of your Company's ownership is still most gratifying. Few large Canadian companies can enjoy the 94.7% share ownership by Canadian residents that existed at the end of 1968. Of the 32,586 shareholders, 88.3% were residents in Canada.

The remarkable progress of the last ten years of operation of the Company, the creation of plans in 1968 and the accomplishments of previously prepared plans during the year under review, are the direct result of the ability, loyalty and dedication of the employees of the Company. Many challenges have been faced and many difficult problems have been handled, particularly during the past year. The Directors are privileged to express sincere thanks for the continued enthusiastic efforts of the men and women of TransCanada.

On behalf of the Board,

Chairman and Chief Executive Officer
Toronto, Ontario   March 10, 1969

Top of this page: A two-man submarine used to inspect pipeline as it was laid in the Straits of Mackinac.

Right: Sections of concrete coated 24″ diameter pipe ready to be pulled 4½ miles across the Straits of Mackinac during construction of Phase Two of the Great Lakes Gas Transmission Company pipeline.

Far right: Phase Two construction of 36″ diameter Great Lakes line in northern Michigan.

Corporate Information

Executive Office
150 Eglinton Avenue East,
Toronto 12, Ontario

Common shares
Transfer agents
Montreal Trust Company,
Montreal, Toronto, Winnipeg,
Calgary and Vancouver

The First National City Bank of New York,
New York

Registrars
National Trust Company, Limited,
Toronto

Banker Trust Company,
New York

Preferred shares
Transfer agents and Registrars
National Trust Company, Limited,
Montreal, Toronto, Winnipeg,
Calgary and Vancouver

TransCanada PipeLines Limited,
a Company incorporated by Special Act of the Parliament of Canada, owns and operates 3,425 miles of gas transmission pipeline in Canada

Affiliate *(50% owned)*
Great Lakes Gas Transmission Company,
a Delaware corporation operating a pipeline through the United States from Emerson, Manitoba to Sault Ste. Marie and Sarnia in Ontario

Subsidiaries *(Wholly Owned)*
Banner Petroleums Limited,
a corporation carrying out oil and gas exploration in western Canada and Ontario

Western Pipe Lines
a company incorporated by Special Act of the Parliament of Canada, holding certain lands in Canada

Alberta Inter-Field Gas Lines Limited,
presently inactive

Trans-Canada Grid of Alberta Ltd.,
a corporation which will own an interest in a gas extraction plant and related operations

International Pipeline Engineering Limited,
a corporation which will carry on the business of engineering, design, and supervision of construction of pipelines and associated facilities.

Auditors
Peat, Marwick, Mitchell & Co.

Directors

T. H. Atkinson, M.C.,
Company Director,
Montreal

R. A. Brown, Jr., D.U.C.,
President and Managing Director,
Home Oil Company Limited,
Calgary

R. W. Campbell,
Executive Vice-President
and General Manager,
Home Oil Company Limited,
Calgary

Vernon L. Horte,
President,
TransCanada PipeLines Limited
Toronto

E. L. Kennedy,
Partner,
Lehman Brothers,
New York

James W. Kerr,
Chairman and Chief Executive Officer,
TransCanada PipeLines Limited,
Toronto

E. D. Loughney,
Executive Vice-President and Director,
Gulf Oil Corporation,
Pittsburgh

Beverley Matthews, C.B.E., Q.C.,
Messrs. McCarthy and McCarthy,
Toronto

N. J. McKinnon,
Chairman of the Board,
Canadian Imperial Bank of Commerce,
Toronto

N. John McNeill, Q.C.,
President,
Great Lakes Gas Transmission Company,
Detroit

A. Deane Nesbitt, O.B.E., D.F.C.,
Chairman of the Board,
Nesbitt Thomson and Company, Limited,
Montreal

Gordon P. Osler,
Chairman and President,
UNAS Investments Limited,
Toronto

Smiley Raborn, Jr.,
President,
Canadian Delhi Oil Ltd.,
Calgary

Frank A. Schultz,
Independent Oil Operator,
Dallas

W. P. Scott,
Honorary Chairman,
Wood Gundy Securities Limited,
Toronto

Ian D. Sinclair, Q.C.,
President,
Canadian Pacific Railway Company,
Montreal

G. H. Thompson, M.C., D.U.C.,
Chairman of the Board,
Calgary Power Ltd.,
Calgary

J. R. Timmins, O.B.E., LL.D., D.Sc.,
Senior Partner,
J. R. Timmins & Company,
Montreal

J. Ross Tolmie, Q.C.,
Messrs. Herridge, Tolmie,
Gray, Coyne & Blair,
Ottawa

Marcel Vincent,
Chairman of the Board,
Bell Canada,
Montreal

George W. Woods,
Group Vice-President,
TransCanada PipeLines Limited,
Toronto

Principal Officers

James W. Kerr, P.Eng.,
Chairman and Chief Executive Officer

Vernon L. Horte, P.Eng.,
President

George W. Woods, C.A.,
Group Vice-President

Walter Hindle, P.Eng.,
Group Vice-President

Carlton C. Whitaker,
Vice-President,
Operations

John E. Lee, P.Eng.,
Vice-President,
Planning and Development

Gordon A. Leslie, P.Geol.,
Vice-President,
Gas Supply

James M. Cameron,
Vice-President and General Counsel

Robert G. Wall, C.A.,
Vice-President and Treasurer

Donald M. Johnston,
Secretary and Assistant General Counsel

Upper left, seated, left to right:
E. L. Kennedy, G. P. Osler, J. W. Kerr, R. A. Brown, Jr., D.U.C. *Standing,* Marcel Vincent, N. John McNeill, Q.C.

Upper right, left to right:
T. H. Atkinson, M.C., Smiley Raborn, Jr., Ian D. Sinclair, Q.C., A. Deane Nesbitt, O.B.E., D.F.C., Frank A. Schultz.

Lower left, left to right:
J. Ross Tolmie, Q.C., W. P. Scott, Beverley Matthews, C.B.E., Q.C., N. J. McKinnon, G. H. Thompson, M.C., D.U.C.

In single pictures, above right: J. R. Timmins, O.B.E., LL.D., D.Sc. *Left, top to bottom:* V. L. Horte, R. W. Campbell, E. D. Loughney, G. W. Woods.

Net income for 1968 amounted to $17,273,598. The amount applicable to the common shares, after provision of $4,647,667 for dividends on preferred shares was $12,625,931. This compares with $12,059,093 for 1967.

Operating profit for 1968 totalled $38,347,892, compared with $37,175,994 for 1967. Cost of gas sold and gathering charges increased by 19%. Gas volumes sold totalled 516 billion cubic feet in 1968, an increase of 77 billion cubic feet or 17.5% over 1967 volumes. Natural gas imported from the United States during 1968 totalled 61.3 billion cubic feet, as compared with 47.8 billion cubic feet imported during 1967. The imports during 1967 and 1968 have had an unfavourable effect on the operating profit and net income. This trend will reverse itself because deliveries of gas from western Canada through the Great Lakes system, which began in November, 1968, will displace imports.

To prepare for greatly expanded sales of the future, a larger than usual compressor station maintenance program was completed during the year. Also included in operations and maintenance were costs totalling $4,416,000 covering transportation of gas for Trans Canada by Great Lakes and by the Union Gas system.

During 1968 depreciation was provided at the rate of 2% on pipeline and 3½% on compressor stations and other transmission plant. Depreciation on general plant equipment was provided at various rates. These rates are consistent with those used since 1962 and are based on estimates of physical and economic life.

The amortization of debt discount and expense has been reduced by $493,000 representing a gain on purchase for sinking fund purposes of Subordinated Debentures due 1987.

Other interest expense during 1968 reflects the higher bank loans during the year. Partly offsetting this cost is the increase in other income which reflects interest received on funds temporarily invested after the sale of $51,500,000 of preferred shares.

The credit for interest charged to construction reflects the large construction program completed during 1968 of $80 million.

No income taxes have been payable by the Company to date. This results from claiming certain deductions for income tax purposes, principally depreciation, in excess of the amounts charged to income in the accounts.

Funds generated from operations during 1968 amounted to $33 million equivalent to $3.97 per common share outstanding December 31, 1968, compared with $3.64 per common share in 1967.

To December 31, 1968, Banner Petroleums Limited, a wholly-owned subsidiary, had invested $4,092,051 in oil and gas properties in the Provinces of British Columbia, Alberta, Saskatchewan and Ontario, in its program of exploration for, and development of, reserves of petroleum and natural gas. The costs involved will be amortized against income in relation to reserves discovered upon commencement of production.

The Company has invested to December 31, 1968, U.S. $17,000,000 in common shares of Great Lakes Gas Transmission Company. On February 7, 1969 the Company invested a further U.S. $3,000,000 in common shares of Great Lakes. In addition to this investment, the Company is carrying at December 31, 1968, $7,082,493 of "Additional costs of gas". The nature of this deferred charge and the method to be used for amortization of the amount, which began in 1968, is more fully explained in Note 3 to the financial statements.

Prepayments and deposits includes a prepayment of $9,709,430 for 66.8 Bcf of natural gas, delivery of which will not be taken by the Company until 1969.

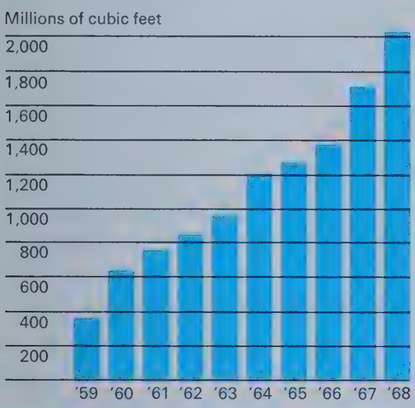
During 1968 the Company sold a further U.S. $7,050,000 under the Bond Purchase Agreements with institutional buyers covering a total of U.S. $120 million of 6⅝% First Mortgage Pipe Line Bonds due August 1, 1987. The total amount issued is now U.S. $30 million, leaving a balance of U.S. $90 million to be sold in 1969 subject to meeting certain conditions. The principal condition is the disposition of all appeals relating to the Certificate of Public Convenience and Necessity granted to the Great Lakes Gas Transmission Company by the Federal Power Commission in the United States.

On May 14, 1968, the Company received the proceeds from the sale of $51.5 million, $2.75 Cumulative Redeemable Convertible Preferred Shares Series A. The preferred shares were offered on a rights basis to the Company's common shareholders.

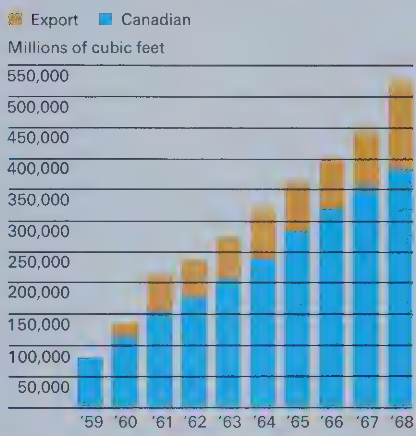
On February 1, 1968, final approval was given to the Act amending the Company's Special Act of Incorporation. The principal changes involved the increase in the Company's authorized capital from 10,000,000 to 25,000,000 common shares and from 1,000,000 to 5,000,000 preferred shares. This increase in capital will enable the Company to be in a position to meet financial requirements for future expansion of facilities.

Dividends totalling $2.80 per share were declared during 1968 on the $2.80 Cumulative Redeemable Preferred Shares (at the rate of 70¢ per quarter) and dividends totalling $2.02 were declared on the new $2.75 Cumulative Redeemable Convertible Preferred Shares Series A (at the rate of 68¾¢ per quarter commencing May 7, 1968). Four quarterly dividends of 25¢ per share were declared on common shares.

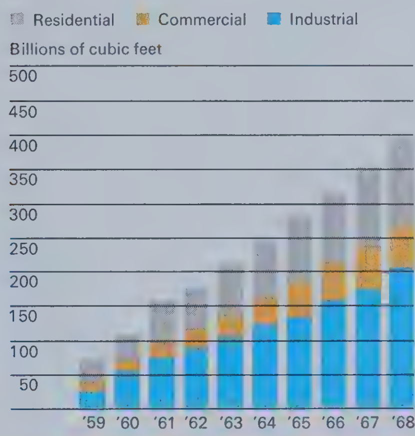
Maximum day gas delivered for sale and transportation



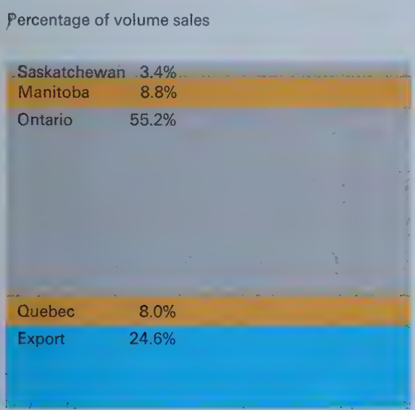
Annual gas sales volumes



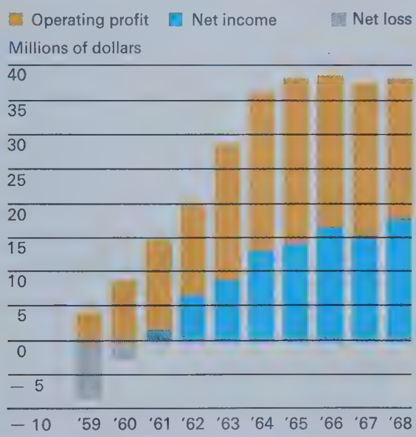
Annual Canadian sales by category



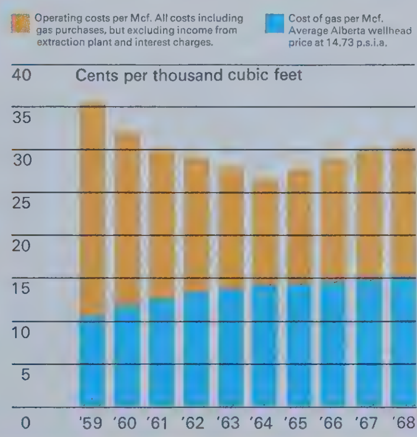
Where the gas was sold in 1968



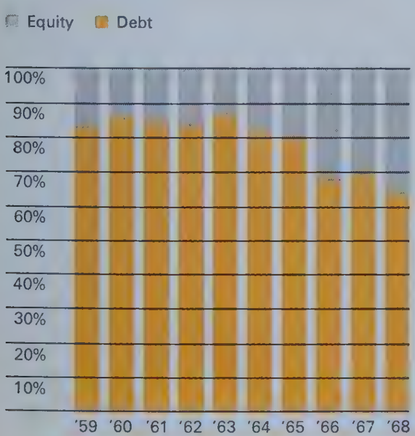
Operating profit and net income



Operating costs and cost of gas



Debt equity ratio-percentage



$2.75 cumulative redeemable convertible preferred shares

Share distribution as at December 31, 1968

	No. of shareholders	No. of shares
Newfoundland	19	210
Prince Edward Island	12	161
Nova Scotia	181	4,734
New Brunswick	112	3,681
Quebec	938	303,527
Ontario	3,644	301,883
Manitoba	503	337,295
Saskatchewan	377	7,914
Alberta	990	34,566
British Columbia	1,158	32,888
Yukon Territory	1	7
Total Canadian	7,935	1,026,866
U.S.A.	25	1,162
Other countries	70	1,972
Overall total	8,030	1,030,000

$2.80 cumulative redeemable preferred shares

Share distribution as at December 31, 1968

	No. of shareholders	No. of shares
Newfoundland	10	1,125
Prince Edward Island	16	776
Nova Scotia	183	20,287
New Brunswick	97	6,024
Quebec	761	214,967
Ontario	3,195	494,436
Manitoba	371	46,794
Saskatchewan	224	14,278
Alberta	788	60,418
British Columbia	1,297	138,880
Yukon Territory	—	—
Total Canadian	6,942	997,985
U.S.A.	7	1,045
Other countries	6	970
Overall total	6,955	1,000,000

December 31, 1968
(with comparative figures at December 31, 1967)

Assets	1968	1967
Plant, Property and Equipment		
Gas transmission plant—at cost (Note 1)	$727,363,224	$647,578,891
Less accumulated depreciation	111,430,578	95,800,512
	615,932,646	551,778,379
Oil and gas properties—at cost (Note 2)	4,092,051	1,272,487
	620,024,697	553,050,866
Investment In and Advances To Great Lakes Gas Transmission Company —at cost (Note 3)	10,778,556	12,293,422
Cash on Deposit for Future Investment in Great Lakes Gas Transmission Company (Note 3)	1,612,681	9,232,681
Special Refundable Tax	536,997	486,310
Current Assets		
Cash	380,774	2,478,999
Accounts receivable	21,912,207	19,337,449
Materials and supplies—at cost	2,842,837	2,500,950
Line pack gas—at cost	1,190,688	981,337
Gas stored underground—at cost	239,217	115,648
Prepayments and deposits	10,381,806	1,924,164
	37,015,579	27,338,547
Deferred Charges		
Unamortized debt discount and expense	7,296,894	7,371,083
Great Lakes project (Note 3)		
Additional costs of gas	7,082,493	5,517,966
Preliminary charges	397,596	397,596
Other	253,167	435,561
	15,030,150	13,722,206
	$684,998,660	$616,124,032

See accompanying notes to financial statements.

Liabilities	1968	1967
Shareholders' Equity		
Capital stock (Notes 4 and 5)		
Preferred—Authorized—5,000,000 shares, par value of $50.00 per share		
—Issued and outstanding		
—1,000,000 $2.80 cumulative redeemable shares	$ 50,000,000	$ 50,000,000
—1,030,000 $2.75 cumulative redeemable convertible shares—Series A	51,500,000	—
Common—Authorized—25,000,000 shares, par value of $1.00 per share		
—Issued and outstanding		
1968—8,258,776 shares	8,258,776	
1967—8,232,749 shares		8,232,749
	109,758,776	58,232,749
Premium on common shares—per Consolidated Statement	87,415,136	87,866,567
Retained earnings—per Consolidated Statement	33,588,260	29,440,091
Shareholders' equity	230,762,172	175,539,407
Deferred Credit (Note 6)	4,379,273	5,474,090
Long Term Debt (Note 7)	350,025,739	365,424,060
Bank Loans (Note 8)	55,388,750	21,409,375
Current Liabilities		
Long term debt due within one year	18,875,550	18,969,036
Accounts payable	24,777,496	20,676,222
Interest accrued	6,316,861	5,873,655
Dividends payable	3,472,819	2,758,187
	53,442,726	48,277,100
	$693,998,660	$616,124,032

On behalf of the Board:

J. W. Kerr, Director

Beverley Matthews, Director

Consolidated Statements

Year ended December 31, 1968
(with comparative figures for 1967)

Income	**1968**	**1967**
Operating Revenues	$195,658,773	$168,122,205
Operating Expenses		
Cost of gas sold and gathering charges (Note 3)	112,723,631	94,681,632
Operation and maintenance	26,625,565	19,640,117
Amortization of Deferred Credit (Note 6)	(1,094,817)	(1,094,817)
Depreciation (Note 1)	15,817,963	14,973,781
Taxes—provincial and municipal	3,238,539	2,745,498
	157,310,881	130,946,211
Operating profit	38,347,892	37,175,994
Interest and Other Deductions		
Interest on long term debt	21,952,364	21,360,402
Amortization of debt discount and expense less gain on purchase of Subordinated Debentures	654,038	1,211,889
Other interest expense	1,512,012	605,447
Other income (credit)	(447,393)	(83,079)
Interest charged to construction (credit)	(2,596,727)	(777,758)
	21,074,294	22,316,901
Net Income for the Year (Note below)	$ 17,273,598	$ 14,859,093

Note

Net income applicable to common shares		
Net income for the year (above)	$ 17,273,598	$ 14,859,093
Less provision for dividends on preferred shares	4,647,667	2,800,000
Net income applicable to common shares	$ 12,625,931	$ 12,059,093

Retained Earnings	**1968**	**1967**
Balance at beginning of year	$ 29,440,091	$ 25,610,447
Net income for year	17,273,598	14,859,093
	46,713,689	40,469,540
Dividends declared		
Preferred	4,883,703	2,800,000
Common	8,241,726	8,229,449
	13,125,429	11,029,449
Balance at end of year (Note 5)	$ 33,588,260	$ 29,440,091

See accompanying notes to financial statements.

Premium on Common Shares

	1968	1967
Balance at beginning of year	$ 87,866,567	$ 87,668,077
Premium on shares issued (Note 4)	687,685	198,490
	88,554,252	87,866,567
Capital stock expense written off	1,139,116	—
Balance at end of year	$ 87,415,136	$ 87,866,567

Source and Application of Funds

	1968	1967
Funds were derived as follows:		
Current operations		
Net income	$ 17,273,598	$ 14,859,093
Add back non-cash items		
Depreciation	15,817,963	14,973,781
Other (net)	(320,182)	117,072
	32,771,379	29,949,946
Bank loans	33,979,375	19,509,375
Issue of securities—net proceeds		
6⅝% First Mortgage Pipe Line Bonds	6,855,639	23,674,931
$2.75 Cumulative Redeemable Convertible Preferred Shares	50,437,420	—
Common Shares	713,630	205,740
Other	497,312	36,015
	$125,254,755	$ 73,376,007
Funds were applied as follows:		
Additions to plant, property and equipment	$ 80,434,274	$ 30,577,073
Oil and gas properties	2,819,564	1,272,487
Great Lakes project		
Investment in and advances to Great Lakes Gas Transmission Company	7,485,134	2,482,145
Cash on deposit for future investment	(7,620,000)	9,232,681
Preliminary charges	—	(2,399,066)
Additional costs of gas	1,614,535	3,219,915
Long term debt		
Retirement	18,928,836	16,524,611
Purchase of 1987 Subordinated Debentures	3,998,376	—
Dividends		
Preferred	4,883,703	2,800,000
Common	8,241,726	8,229,449
Special refundable tax	50,687	82,529
Increase in working capital exclusive of changes in current portion of long term debt	4,417,920	1,354,183
	$125,254,755	$ 73,376,007

See accompanying notes to financial statements.

1. Gas transmission plant

The TransCanada natural gas transmission system extends from the Province of Alberta across the Provinces of Saskatchewan, Manitoba and Ontario and through a portion of the Province of Quebec.

The Company has provided for depreciation at the rate of 2% on pipeline, 3½% on compressor stations and other transmission plant and at various rates on general plant equipment. Depreciation is based on straightline rates determined on the physical and economic life of the assets. In accordance with generally accepted accounting practice for utility companies, any profit or loss on the disposal of fixed assets is absorbed in accumulated depreciation.

The 1969 construction program is estimated to cost approximately $60,000,000.

2. Oil and gas properties

All expenditures made by Banner Petroleums Limited, a wholly-owned subsidiary, have been capitalized. These expenditures consist mainly of lease acquisition and well drilling costs and overhead incurred prior to the commencement of production. These costs will be amortized based upon reserves discovered.

3. Great Lakes project

Great Lakes Gas Transmission Company (Great Lakes) is a United States corporation owned equally by the Company and American Natural Gas Company (American Natural). Great Lakes owns and operates a 36 inch pipeline system, which serves as a loop of the TransCanada transmission system, extending from Emerson, Manitoba, through Minnesota, Wisconsin and Michigan to Sarnia, Ontario. The Great Lakes pipeline system was substantially completed in 1968 and is now in operation under valid and subsisting certificates. The United States Court of Appeals in a decision dated June 21, 1968, remanded proceedings back to the Federal Power Commission for further consideration of certain aspects of the Great Lakes project. The remanded proceedings are concerned principally with American Natural's 50% ownership in Great Lakes.

The Company and American Natural have each invested U.S. $17,000,000 in common shares of Great Lakes to December 31, 1968. The Company's proportion of the equity underlying this investment is U.S. $18,030,948. No portion of the retained earnings of Great Lakes has been recorded in the Company's accounts. During 1969 the Company and American Natural will each invest a further U.S. $3,000,000 in common shares of Great Lakes.

Prior to the commencement of deliveries of natural gas from western Canada through the Great Lakes system the Company entered into short-term contracts, extending to November 1, 1970, for the purchase of natural gas from suppliers in the United States to assist in the orderly development of markets in eastern Canada. The difference between the actual cost of this short-term supply and the ultimate selling price of gas delivered through the Great Lakes system to the storage fields near Dawn, Ontario, is considered to be one of the costs of bringing the Great Lakes system into operation.

As a result, up to December 31, 1968, $7,132,501 has been deferred, of which $1,614,535 is applicable to 1968 and $3,219,915 to 1967. The amounts deferred are being amortized to operating expenses over an estimated 15 year period at the rate of ¼¢ per Mcf of throughput through the Great Lakes system. During 1968, $50,008 of this deferred charge was amortized to expense. This procedure has been approved by the National Energy Board for accounting purposes. The Board has reserved for future consideration, the appropriate treatment of these costs as they relate to traffic, tolls and tariffs.

The major portion of the costs incurred by the Company in connection with the Great Lakes project has been charged to Great Lakes. Amounts not charged are carried on the Company's balance sheet under the caption "Great Lakes project—Preliminary charges" and will be amortized to operating expenses in five equal annual instalments commencing in 1969.

4. Capital stock

On May 14, 1968, 1,030,000 $2.75 Cumulative Redeemable Convertible

Preferred Shares Series A of the par value of $50.00 per share were issued for a cash consideration of $51,500,000. These shares are redeemable at the option of the Company at $52.50 per share commencing May 1, 1973 and thereafter at redemption prices reducing in progressive steps to $50.50 per share after April 30, 1984. On February 1, 1971, the Company is required, subject to certain conditions, to create a purchase fund equal to 2% of the par value of the Preferred Shares Series A outstanding on December 31, 1970. This purchase fund is to be applied, subject to certain conditions, to purchase these shares for cancellation to the extent, if any, that such shares are available at a price not exceeding $50.00 per share plus costs of purchase. On each February 1 thereafter, the Company is required to bring the balance in the purchase fund up to an amount equivalent to 2% of the par value of the Preferred Shares Series A outstanding on the preceding December 31. These shares are convertible to May 1, 1978 or the day prior to redemption, whichever is earlier, into common shares of the Company on the basis of 1-6/7 common shares for each share converted. The foregoing conversion basis is subject to adjustment in certain circumstances. 1,912,857 common shares are reserved for the conversion of these Preferred Shares Series A.

The $2.80 Cumulative Redeemable Preferred Shares are redeemable at the option of the Company at $52.50 per share to May 1, 1971 and thereafter at redemption prices reducing in progressive steps to $50.50 per share after May 1, 1977. On February 1, 1969, the Company is required, subject to certain conditions, to create a purchase fund equal to 2% of the par value of the $2.80 Cumulative Redeemable Preferred Shares outstanding on December 31, 1968. This purchase fund is to be applied, subject to certain conditions, to purchase these preferred shares for cancellation to the extent, if any, that such shares are available at a price not exceeding $50.00 per share plus costs of purchase. On each February 1 thereafter, the Company is required to bring the balance in the purchase fund up to an amount equivalent to 2% of the par value of the $2.80 Cumulative Redeemable Preferred Shares outstanding on the preceding December 31. As at December 31, 1968, 499,951 Share Purchase Warrants, which had been issued in association with the sale of these preferred shares, were outstanding.

Each warrant is exercisable to April 30, 1976 and entitles its holder to purchase one common share for $41.00 or at such adjustment of that price as may be required to be made under the terms of the warrant. 499,951 common shares are reserved for the exercise of outstanding Share Purchase Warrants.

The 5% Convertible Subordinated Income Debentures due 1989 are convertible to December 1, 1974 into common shares at a conversion price of $41.00 per share or at such adjustment of that price as may be required to be made under the terms of these convertible debentures. During 1968 two common shares were issued under this conversion privilege. 611,868 common shares are reserved for the conversion of the 5% Convertible Subordinated Income Debenture due 1989. The convertible debentures are now redeemable at the option of the Company.

At December 31, 1968, 140,460 common shares are reserved for the exercise of options granted or which may be granted under the terms and conditions of the Company's Incentive Stock Option Plan. There were outstanding options on 109,534 shares under this plan at prices varying from $23.94 to $38.26, the last of which expires in 1978. During 1968, 26,025 shares were issued under this plan for a cash consideration of $713,630.

The Company's Special Act of Incorporation was amended on February 1, 1968 to increase the authorized capital stock to 5,000,000 preferred shares and 25,000,000 common shares.

5. Restrictions on common share dividends

Declaration of dividends on common shares is restricted under the provisions of the Deed of Trust and Mortgage securing the First Mortgage Pipe Line Bonds, under the Indenture relating to the Subordinated Debentures due 1987 and under the provisions of the $2.80 Cumulative Redeemable Preferred Shares and the $2.75 Cumulative Redeemable Convertible Preferred Shares Series A. Under the most restrictive of such provisions $6,400,000 was available for the payment of dividends on common shares at December 31, 1968.

6. Deferred credit

On May 29, 1963, the Company purchased from the Northern Ontario Pipe Line Crown Corporation the Northern Ontario Section which the Company had formerly leased and operated as an integral part of its system. This Section, which consisted of 676 miles of pipeline and five compressor stations, is located between the Manitoba-Ontario border and Kapuskasing, Ontario.

In accordance with the procedures established under the Uniform Classification of Accounts for Gas Pipe Line Companies, the National Energy Board approved a method of accounting for the purchase whereby the amount of $10,948,175 was to be credited to "Deferred credit" and amortized in ten equal annual instalments commencing in 1963.

7. Long term debt

The following issues were outstanding at December 31 :

First Mortgage Pipe Line Bonds		1968	1967
due 1978			
5¼% U.S. Series—U.S. $58,058,000		$ 58,058,000	$ 63,866,000
5½% Canadian Series		13,224,000	14,548,000
6¼% U.S. Series—U.S. $4,894,000		4,894,000	5,350,000
6¾% Canadian Series		2,813,000	3,091,000
due 1983			
5¾% U.S. Series—U.S. $77,568,852		83,539,228	89,175,845
6¼% Canadian Series		37,345,680	39,865,593
due 1985			
5⅛% U.S. Series—U.S. $37,850,832		40,826,524	43,253,376
due 1987			
6⅝% U.S. Series—U.S. $30,000,000		32,303,803	24,636,928
Subordinated Debentures due 1987			
5.60% U.S. Series—			
U.S. $20,833,300	$ 20,833,300		
Less—Company owned	1,006,700	19,826,600	20,833,300
5.85% Canadian Series	54,166,700		
Less—Company owned	3,611,000	50,555,700	54,166,700
Convertible Subordinated Income Debentures (Note 4)			
5% due 1989		25,086,600	25,086,700
		368,473,135	383,873,442
Less—long term debt due within one year			
Canadian $18,875,550		18,447,396	
Canadian $18,969,036			18,449,382
		$350,025,739	$365,424,060

Sinking fund payments for the Subordinated Debentures due 1987 have been provided for by debentures owned by the Company and consequently these sinking fund payments are not included in the liability for long term debt due within one year.

The Company entered into Bond Purchase Agreements dated September 14, 1967, to sell at par U.S. $120,000,000 principal amount of 6⅝% First Mortgage Pipe Line Bonds due August 1, 1987. The Agreements provide for bonds to be sold at four separate closings, the first two of which took place on October 17, 1967 and February 1, 1968, in the amounts of U.S. $22,950,000 and U.S. $7,050,000 respectively. The remaining closings, scheduled for August 1, 1968 and January 31, 1969 in the amounts of U.S. $20,200,000 and U.S. $69,800,000 respectively, have been postponed as provided for in the Agreements. There are conditions precedent to the issue of the remaining U.S. $90,000,000, the main condition being the disposition of all appeals relating to the Certificate of Public Convenience and Necessity granted to Great Lakes Gas Transmission Company by the Federal Power Commission (Note 3).

Maximum sinking fund requirements approximate $25,200,000 for 1970 and $28,800,000 for each of the years 1971, 1972 and 1973.

The Deed of Trust and Mortgage provides for increased sinking fund payments if a Certificate of Gas Supply indicates exhaustion of gas supply earlier than specified dates.

As required, the Company's gas purchase and sales contracts and the contracts with The Alberta Gas Trunk Line Company Limited and Great Lakes Gas Transmission Company are mortgaged and pledged under the Deed of Trust and Mortgage securing the First Mortgage Pipe Line Bonds.

8. Bank loans

These loans were incurred for construction purposes and will be replaced by long term financing.

9. Income taxes

As allowed by the appropriate regulations the Company has followed the practices and principles of claiming certain deductions for income tax purposes, principally depreciation, in excess of the amounts charged to income for accounting purposes. As a result no income taxes have been payable to date. If the appropriate tax regulations had not permitted such deductions, income taxes would have been payable in the amount of $8,400,000 for the year 1967, $9,700,000 for the year 1968 and $47,000,000 to date.

The Company has represented to the National Energy Board that it proposes to follow these practices and principles in both its accounting and rate design and has been instructed that no change should be made in these procedures without the approval of the National Energy Board.

10. Remuneration of directors and senior officers

Remuneration paid to directors, including fees and salaries, amounted to $190,000 and remuneration paid to senior officers, who are not directors, amounted to $264,000.

11. Principles of conversion

All assets and liabilities in United States dollars are stated at their Canadian equivalent other than that portion of long term debt due after one year. Long term debt due after one year is stated at the greater of par or its Canadian equivalent determined at the dates of sale of the respective issues.

12. Subsidiary companies

The consolidated statements include, in addition to the accounts of Trans-Canada Pipe Lines Limited, the accounts of its subsidiary companies, all of which are wholly-owned.

13. Agreement with Dome Petroleum Limited

The Company and Dome Petroleum Limited have reached agreement in principle regarding the extraction of natural gas liquids from the Company's gas stream. The agreement covers arrangements for the processing of 1.5 billion cubic feet of natural gas per day.

The extraction facilities will be constructed in Alberta near the Saskatchewan border and will be phased to the growth in the Company's natural gas markets. The extraction plant will have an ultimate production rate of 15,000 barrels per day of propane, butanes and natural gasoline.

PEAT, MARWICK, MITCHELL & CO.
CHARTERED ACCOUNTANTS
PRUDENTIAL BUILDING
KING AND YONGE STREETS
TORONTO 1, ONTARIO

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Trans-Canada Pipe Lines Limited and its subsidiary companies as of December 31, 1968 and the consolidated statements of income, retained earnings, premium on common shares and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company and its subsidiary companies at December 31, 1968 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario
January 31, 1969

Peat, Marwick, Mitchell & Co.
Chartered Accountants

	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959
Income (in thousands of dollars)										
Operating Revenues	$ **195,659**	168,122	154,131	136,973	119,612	102,523	87,834	77,108	49,157	29,589
Operating Expenses										
Cost of gas sold and gathering charges	**112,724**	94,682	82,887	68,550	57,275	47,081	40,164	36,002	20,987	11,271
Operation and maintenance	**26,625**	19,640	16,944	15,497	12,759	10,124	7,785	7,501	5,599	5,159
Northern Ontario section of main line	**(1,095)**	(1,095)	(1,095)	(1,095)	(1,095)	5,611	11,415	9,853	7,431	4,856
Depreciation	**15,818**	14,974	14,282	13,575	12,365	9,438	6,665	7,428	4,918	3,425
Taxes—provincial and municipal	**3,239**	2,745	2,447	2,289	2,191	1,991	1,835	1,743	1,816	1,531
	157,311	130,946	115,465	98,816	83,495	74,245	67,864	62,527	40,751	26,242
Operating profit	**38,348**	37,176	38,666	38,157	36,117	28,278	19,970	14,581	8,406	3,347
Interest expense (net)	**21,074**	22,317	22,165	23,987	22,874	19,350	13,904	12,505	11,317	11,758
Net income	**17,274**	14,859	16,501	14,170	13,243	8,928	6,066	2,076	(2,911)	(8,411)
Provision for dividends on preferred shares	**4,648**	2,800	1,750	—	—	—	—	—	—	—
Net income applicable to common shares	$ **12,626**	12,059	14,751	14,170	13,243	8,928	6,066	2,076	(2,911)	(8,411)
Net income per share										
On average shares outstanding during year	$ **1.53**	1.47	1.86	1.87	1.99	1.52	1.03	.35	—	—
On shares outstanding December 31	$ **1.53**	1.46	1.79	1.87	1.76	1.52	1.03	.35	—	—
Balance sheet (in thousands of dollars)										
Plant, property and equipment										
—gross	$ **731,455**	648,851	617,578	587,644	562,329	512,682	329,420	298,028	286,954	262,087
—net	**620,025**	553,051	536,250	520,074	507,840	470,177	306,503	281,558	277,590	257,598
Annual additions	**83,300**	31,800	30,700	26,000	51,000	184,000	31,800	11,500	30,800	5,500
Long term debt	**350,026**	365,424	359,237	391,819	365,779	376,812	214,319	222,185	229,622	208,873
Shareholders' equity										
—total	**230,762**	175,539	171,504	103,263	95,453	60,832	50,344	45,833	43,757	46,668
—per common share	**15.65**	15.25	14.77	13.60	12.67	10.38	8.59	7.82	7.47	7.96
Statistics										
Miles of pipeline—including loop line	**3,425**	3,107	3,073	2,882	2,753	2,604	2,399	2,340	2,340	2,290
Compressor horsepower	**710,560**	643,360	574,160	545,060	523,510	363,810	270,910	196,510	148,585	75,500
Gas sales volume Mmcf										
Annual	**515,959**	438,994	401,000	358,300	316,700	271,100	237,300	210,400	127,500	74,500
Maximum day, gas delivered for sale and transportation	**2,045**	1,694	1,356	1,249	1,196	941	813	744	639	359
Number of employees—average	**1,121**	1,014	954	918	872	805	723	726	702	704
Common shares outstanding December 31	**8,258,776**	8,232,749	8,225,499	7,594,735	7,534,529	5,861,383	5,861,183	5,861,183	5,861,183	5,861,183
Shareholders, December 31	**32,586**	35,472	35,241	33,829	30,107	32,009	31,864	32,931	35,686	35,203

When western Canadian gas moved into the pipeline of Great Lakes Gas Transmission Company on October 31, 1968, TransCanada realized the culmination of planning which began in 1961. The new Great Lakes line, constructed in two stages, is the shortest route for transporting natural gas from western Canada to the rapidly developing markets in southwestern Ontario. The Great Lakes system is owned equally by TransCanada and American Natural Gas Company of Detroit.

Late in 1968 the second stage of construction was completed. This stage consisted of 814 miles of 36 inch pipeline, extending from the Canadian border near Emerson, Manitoba to Farwell, Michigan, and a 44 mile extension of 10 inch pipeline to Sault Ste. Marie, Ontario, and was the largest pipeline project built during 1968 on the North American continent. At Farwell the new line connected with the 157 mile segment which had been constructed in 1967 as the first stage of the overall project.

At the peak of construction almost 4,000 persons were involved in this vast undertaking. Eight major pipeline contractors, some of whom were Canadian, carried out the actual pipeline construction. History was made with the successful installation of two 24 inch pipelines crossing the Straits of Mackinac near the famous Mackinac Bridge. Difficult weather conditions encountered there as well as along the route of the mainline greatly hampered construction activities.

Four compressor stations were also constructed during 1968, adding 39,000 horsepower to the system. During 1969 Great Lakes plans to construct two new compressor

An aerial view of construction crew installing Great Lakes line through bush country of northern Michigan.

stations and to expand two existing stations. This program will add 36,200 horsepower to the system at a cost of approximately $10 million.

Deliveries through Great Lakes since the completion of construction have been reduced due to start-up problems. Two pipeline ruptures have occurred and a portion of the line is presently being operated at reduced pressure pending further investigation. Great Lakes is confident that these initial operating difficulties will be overcome in the near future.

In 1968 Great Lakes issued an additional $14 million of common stock divided equally between American Natural and TransCanada and borrowed $190 million from five banks secured by two-year promissory notes.

In June the United States Court of Appeals in Washington, D.C. acted on the petition for review of the certificate authority of Great Lakes brought by opponents in the United States who earlier had endeavoured to defeat the Great Lakes project before the Federal Power Commission and the Court. The Appeals Court remanded the case to the Commission directing it to give further consideration to certain aspects involved in the Great Lakes project, principally the continued ownership of Great Lakes' stock by American Natural Gas Company. Proceedings by the Federal Power Commission commenced in March, 1969.

Pulling of the pipe across the Straits of Mackinac during construction of the Great Lakes system was supervised from the Project Engineer's Control Tower.

Above: Colour designs on bath towels are made fast in natural gas dryers.

Left: Natural gas controls at plant manufacturing carbon black for use in industry.

Right: Modern high-rise apartment buildings use natural gas for heating requirements.

The volume of gas sold in the Canadian and United States markets served by the Company increased more than 17.5% from 439 Bcf in 1967 to 516 Bcf in 1968.

Export sales to Midwestern Gas Transmission Company rose 40%. In the eastern Canadian market TransCanada's sales rose only 10.3% in 1968, due to the fact that new large supplies of western Canadian gas were not available until completion of the Great Lakes system. During 1968 substantial volumes of gas were withdrawn from certain storage fields to fulfill market requirements. In 1969 the storage withdrawals will be re-

placed and it is expected that total pipeline sales will exceed 600 Bcf up approximately 15% from 516 Bcf sold in 1968.

In the market areas served by the Company, gas continues to increase its share of households using gas as a principal heating fuel. This percentage rose from 21% of such households in 1964 to 26% in 1968. However, partly due to the trend toward multiple housing rather than single units, residential sales now account for a lesser proportion of total natural gas sales in Saskatchewan, Manitoba, Ontario and Quebec, and commercial and industrial sales are relatively higher. Commercial use has increased from 15% of total sales in 1964 to 18% of total sales in 1968. Industrial use has increased from 50% of total sales in 1964 to 52% in 1968. During the same period residential sales have declined from 35% of the total sales in 1964 to 30% of the total sales in 1968.

Natural gas service was extended to Sault Ste. Marie, Ontario in 1968 for the first time with gas supplied from the Great Lakes system.

Export sales in the United States off the Great Lakes system will increase in 1969 over original projections. The availability of western Canadian gas in Minnesota, Wisconsin and Michigan is of great interest to potential customers in these and adjacent states. The increasing markets provided by the Great Lakes system is also an important stimulus to increased gas exploration in western Canada.

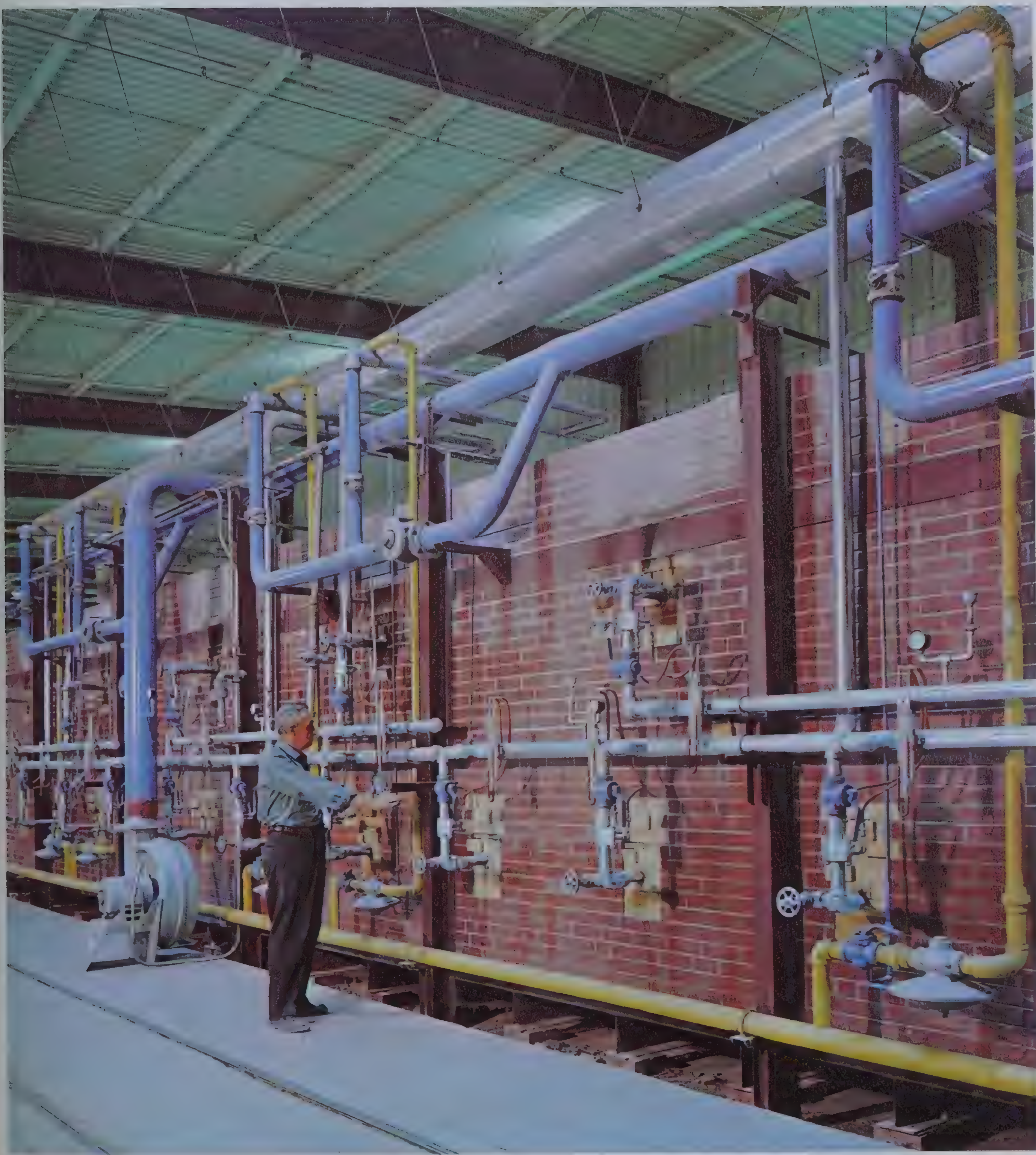
The Company continued during 1968 to support the advertising programs carried on by the Canadian gas industry. The increasing sales of natural gas appliances, especially in the Montreal area, has been a source of great encouragement.

Annual Gas Sales
fiscal years 1959-1968

By Distributor Volumes in Mmcf	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959
Saskatchewan Power Corporation	17,417	13,020	6,224	3,399	3,279	2,958	2,955	2,977	2,512	772
Plains-Western Gas (Manitoba) Ltd.	6,565	4,553	2,588	2,456	1,980	1,539	1,406	1,577	1,035	1,076
Inter-City Gas Limited	3,296	3,117	2,985	2,474	2,145	1,892	1,784	1,556	1,401	863
Greater Winnipeg Gas Company	35,628	34,480	33,255	27,406	23,467	19,108	15,604	13,262	9,087	6,421
Northern and Central Gas Corporation Limited	70,521	64,791	59,257	51,682	48,226	42,240	38,427	32,549	28,881	20,899
The Consumers' Gas Company	128,610	112,604	105,301	98,707	87,850	73,294	61,535	51,584	41,192	33,214
Union Gas Company of Canada, Limited	86,736	70,142	55,798	54,041	43,533	33,264	25,525	20,582	16,113	2,561
Kingston Public Utilities Commission	1,586	1,550	1,555	1,483	1,224	1,006	816	443	345	212
Augusta Natural Gas Limited	5,284	5,288	5,268	4,392	4,823	4,230	4,078	2,939	2,162	1,859
Quebec Natural Gas Corporation	41,153	41,114	41,149	36,308	31,737	27,036	23,120	23,780	12,205	5,690
Total Canadian	388,796	350,669	320,248	281,154	243,274	206,818	175,048	151,289	115,033	74,458
Export—Midwestern Gas Transmission	117,197	83,718	77,148	73,998	71,356	62,785	61,954	59,139	12,485	—
Export—Great Lakes Gas Transmission	3,665	—	—	—	—	—	—	—	—	—
Export—Tennessee Gas Pipeline Company	455	—	—	—	—	—	—	—	—	—
Export—Niagara Gas Transmission	4,394	3,934	3,371	3,144	2,078	1,687	257	—	—	—
Export—Vermont Gas Systems, Inc.	1,452	613	270	—	—	—	—	—	—	—
Total Sales	515,959	438,934	401,037	358,286	318,718	271,090	237,259	210,428	127,518	74,458

By Geographical Area Volumes in Mmcf	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959
Saskatchewan	17,417	13,020	6,224	3,399	3,279	2,958	2,955	2,977	2,512	772
Manitoba	45,489	42,149	38,728	32,336	27,592	22,530	18,794	16,435	11,523	8,369
Ontario	284,737	254,389	234,147	209,111	180,696	154,054	130,179	108,997	88,792	58,639
Quebec	41,153	41,114	41,148	36,308	31,737	27,036	23,120	23,780	12,205	5,690
Total Canadian	388,796	350,669	320,248	281,154	243,274	206,818	175,048	151,289	115,033	74,458
Export—Midwestern United States	117,187	83,718	77,148	73,888	71,398	62,785	61,954	59,139	12,485	—
Export—State of Michigan	3,665	—	—	—	—	—	—	—	—	—
Export—State of New York	4,849	3,934	3,371	3,144	2,078	1,687	257	—	—	—
Export—State of Vermont	1,452	613	270	—	—	—	—	—	—	—
Total Sales	515,959	438,934	401,037	358,286	318,718	271,090	237,259	210,428	127,518	74,458

Opposite page: Tunnel kiln with bank of gas burners for baking high tension insulators.



Natural Gas Liquids

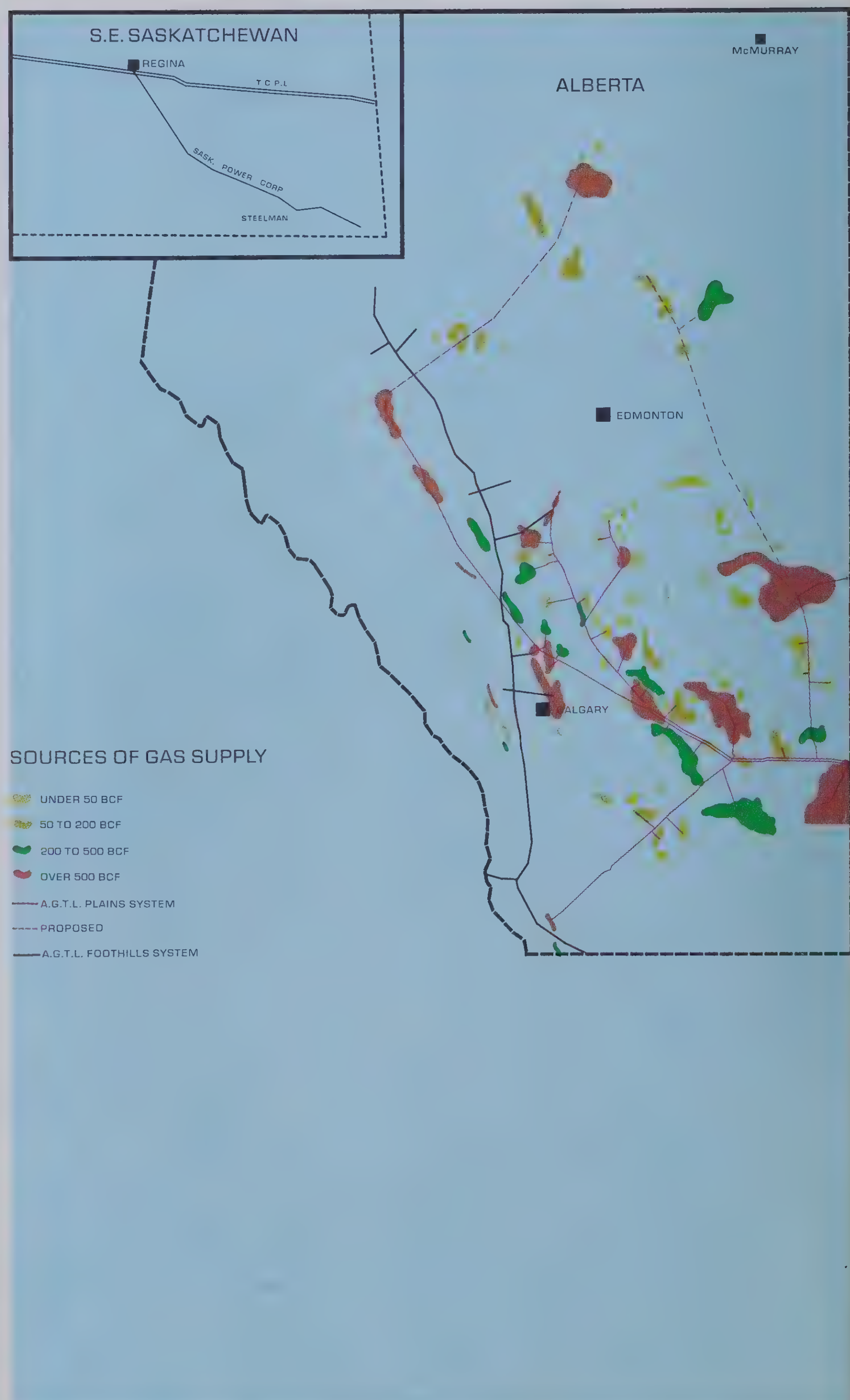
The extraction plant at Empress, Alberta, owned and operated by Pacific Petroleums Ltd., was expanded to a designed capacity of 1,500 million cubic feet of natural gas per day. This capacity was reached in early 1968 and the plant operated as scheduled throughout 1968. Pacific's agreement with TransCanada is based on a payout concept, following which Trans Canada's benefits will increase substantially.

Careful consideration was given to the alternatives for processing the stream in excess of 1,500 million cubic feet per day. As a result of these studies and discussions, TransCanada reached an agreement in principle with Dome Petroleum Limited. This agreement provides for the construction and operation of extraction facilities for processing the gas stream in excess of 1,500 million cubic feet per day. The details of the agreement are now being worked out between Dome and TransCanada. Further information will be made available during 1969. It is expected that the extraction facilities for processing the stream in excess of 1,500 million cubic feet per day will be in operation in 1971.

Gas Supply

In order to fulfill the growing requirements for gas in markets served by the Company, a very active gas purchasing program was continued throughout 1968 and 125 additional long term gas purchase contracts were made for the purchase of 1.5 trillion cubic feet of reserves in 29 new fields and 0.6 trillion cubic feet in fields in which gas had previously been contracted for by the Company.

An application for increased authorizations to remove gas from the Province was submitted to the Oil and Gas Conservation Board of Alberta in April, 1968 and the increases applied for were granted



in November 1968. Under the provisions of consolidated Permit TC 68-8, the term of which was extended to October 31, 1993, the Company is authorized to remove from Alberta a maximum daily volume of 2.715 billion cubic feet; an annual volume of 860 billion cubic feet and a total quantity of 19.2 trillion cubic feet during the term of the permit. Of this latter quantity 3.0 trillion cubic feet have been removed from the Province to the end of 1968. All volumes set out in the permit are at 14.65 p.s.i.a. pressure base.

In addition to the quantities authorized under its own permit the Company purchases gas from producers in Alberta and Saskatchewan up to maximum daily volumes of 38 million cubic feet and 23 million cubic feet respectively which is removed from the provinces under authorizations obtained by the producing companies.

During the past ten years the Company has:

- increased its proven gas reserves under contract from 6.2 trillion cubic feet to 19.7 trillion cubic feet which is an average of 1.35 trillion cubic feet per year.
- increased the number of its gas purchase contracts from 87 to 950.
- increased its maximum daily quantity under contract from 0.8 billion cubic feet to 2.9 billion cubic feet.
- increased the number of fields in Alberta in which it has contracted for its gas from 21 to 107.
- increased its authorizations to remove gas from Alberta from a total of 5.5 trillion cubic feet to 19.2 trillion cubic feet.

During this same ten year period the established gas reserves in Alberta have increased from 23 to 50 trillion cubic feet.

In 1968 there were some very important developments in gas supply areas of western Canada. Most significant to the Company were the discoveries in the Strachan Whiskey Creek and Bragg Creek areas in the Alberta foothills. It now appears that reserves amounting to several trillion cubic feet will be developed in these areas. Recently the Company has contracted for a major part of the reserves presently developed in these areas. The contracts also commit to the Company the future reserves to be developed over an extensive area adjoining the present discoveries.

Banner Petroleums Limited

During 1968 the Company's wholly-owned subsidiary, Banner Petroleums Limited, continued its active program of land acquisition and also carried out an extensive drilling program.

As of December 31, 1968, Banner's holdings of exploratory acreage totalled 462,544 net acres. The main increase in holdings took place in west central Alberta.

Land holdings as of December 31, 1968, were as follows:

	Gross	Net
Alberta	782,116	394,665
British Columbia	3,643	1,912
Ontario	6,948	4,627
Saskatchewan	119,920	61,340
Total	912,627	462,544

In 1968 Banner participated in the drilling of thirty-two exploratory wells, six of which were drilled by other operators under farmout agreements. Banner's average net participation in these wells was 36.5 per cent. In development drilling Banner took part in four wells. The results of the 1968 drilling program is as follows:

Exploration

	Total	Oil	Gas	Dry	Other
Participation	26	1	4	20	1*
Farmout	6	—	—	6	—
	32	1	4	26	1

Development

	Total	Oil	Gas	Dry	Other
Participation	4	—	2	2	—

*one well was suspended

Banner has land holdings in three areas of Alberta which are of immediate interest. In the Virgo area of northwestern Alberta Banner holds a twenty per cent working interest in five petroleum and natural gas leases totalling 1,240 acres. One of these leases was drilled early in 1969 and resulted in a Keg River oil discovery. It is anticipated that three out of the four remaining leases will be drilled prior to the end of April, 1969.

In the North Ghost Pine area of south central Alberta Banner participated in the drilling of seven exploratory wells. Three of these wells were completed as shut-in Cretaceous gas wells. In January 1969, two additional gas discoveries were made by Banner in the area. In February 1969 a gas discovery was made in the Wabasca area of Alberta approximately 16 miles north of the Marten Hills field. The exploratory well was drilled on a 15,000 acre petroleum and natural gas reservation in which Banner owns 50% of the working interest. Further drilling is planned for 1969 to follow-up these discoveries and to evaluate the remaining exploratory acreage in each of the areas.

In James River, an area of active interest in west central Alberta, Banner holds a sixty per cent interest down to the base of the Cardium zone in 7,352 acres and a fifty per cent interest in all zones, including the Leduc, in 638 acres. Discoveries of Cardium oil and of Leduc gas have been made in the general vicinity of these holdings and a Leduc test is currently being drilled on Banner's acreage under a farm-out agreement under which the drilling party will earn fifty per cent of Banner's interest.

International Pipeline Engineering Limited

For some time the frequency of requests made by other companies in the natural gas and pipeline industry to the Company for engineer-

ing advice has made it apparent that the Company's engineering department was very highly regarded. In February the Company formed a new wholly-owned subsidiary, International Pipeline Engineering Limited (IPEL) for the purpose of carrying out engineering assignments. IPEL has already received assignments to provide engineering services on projects in Canada, the United States and Australia, with the prospects of further assignments in Europe and Africa.

1968 Construction

TransCanada's 1968 construction program was completed on schedule at a cost of $80,000,000. The program included the addition of approximately 318 miles of pipeline and 67,200 compression horsepower.

New pipeline added in Quebec consisted of 32.5 miles of 16 inch line, together with 2.8 miles of 12 inch dual crossings of the St. Lawrence River and the Beauharnois Canal. This construction connects the existing 20 inch mainline to Montreal, Quebec, with the Company's existing export line to Vermont.

In Ontario the looping program between Toronto and Montreal was continued and 48.9 miles of 24 inch loop line installed.

Other pipeline added in Ontario consisted of 6.4 miles of 10 inch pipeline from the international border to Sault Ste. Marie, Ontario. This line is an extension from the

Opposite left: When beaver dams flooded a section of the pipeline in northern Ontario a helicopter was used to carry 3,500 lbs concrete weights to the area for use in holding the pipe firmly in its trench.

Above right: A parade of sideboom tractors lowers a pipe into the ditch during 1968 construction in eastern Ontario.

Lower right: Third pipeline is tied in to compressor station yard piping in western Saskatchewan.

Station No.	Location	Compressor horsepower Dec. 31, 1967	Additions 1968	Total Dec. 31, 1968
2	Burstall, Sask.	34,200	—	34,200
5	Cabri, Sask.	17,570	12,100	29,670
9	Herbert, Sask.	29,670	—	29,670
13	Caron, Sask.	29,100	—	29,100
17	Regina, Sask.	17,570	12,100	29,670
21	Grenfell, Sask.	29,800	—	29,800
25	Moosomin, Sask.	20,400	12,100	32,500
30	Rapid City, Man.	29,800	—	29,800
34	Portage la Prairie, Man.	17,700	12,100	29,800
41	Ile des Chenes, Man.	40,100	—	40,100
43	Spruce, Man.	12,100	—	12,100
45	Falcon Lake, Man.	12,000	—	12,000
49	Kenora, Ont.	15,200	—	15,200
52	Vermilion Bay, Ont.	12,100	—	12,100
55	Dryden, Ont.	12,000	—	12,000
58	Ignace, Ont.	15,200	—	15,200
60	Martin, Ont.	12,100	—	12,100
62	Upsala, Ont.	12,000	—	12,000
64	Raith, Ont.	12,100	—	12,100
68	Port Arthur, Ont.	12,500	—	12,500
70	Hurkett, Ont.	12,100	—	12,100
75	Nipigon, Ont.	12,400	—	12,400
77	Jellicoe, Ont.	12,100	—	12,100
80	Geraldton, Ont.	12,500	—	12,500
84	Klotz Lake, Ont.	12,100	—	12,100
86	Hearst, Ont.	12,000	—	12,000
88	Calstock, Ont.	12,100	—	12,100
92	Mattice, Ont.	10,000	—	10,000
95	Kapuskasing, Ont.	7,200	—	7,200
99	Smooth Rock Falls, Ont.	9,900	—	9,900
102	Potter, Ont.	12,100	—	12,100
105	Ramore, Ont.	10,000	—	10,000
107	Swastika, Ont.	7,200	3,400	10,600
110	Haileybury, Ont.	7,700	—	7,700
112	Marten River, Ont.	10,600	—	10,600
116	North Bay, Ont.	10,400	—	10,400
119	Sundridge, Ont.	7,200	—	7,200
123	Bracebridge, Ont.	9,900	—	9,900
127	Barrie, Ont.	7,200	3,400	10,600
130	Maple, Ont.	7,900	—	7,900
134	Bowmanville, Ont.	3,000	3,000	6,000
136	Cobourg, Ont.	6,000	3,000	9,000
139	Belleville, Ont.	3,000	3,000	6,000
142	Kingston, Ont.	6,000	—	6,000
144	Brockville, Ont.	3,000	3,000	6,000
802	Candiac, Quebec	550	—	550
	Mobile Compressor Units	26,000	—	26,000
Total		643,360	67,200	710,560

Great Lakes Gas Transmission Company system.
In Saskatchewan and Manitoba the Company commenced the construction of its second loop line and installed 209.2 miles of 36 inch line. Looping of the Emerson Extension was commenced and 17.4 miles of 36 inch loop line was installed.

The Company's program to increase the efficiency and throughput of the original pipeline was continued, and 17.4 miles of the 30 inch Emerson Extension in Manitoba and 61 miles of the 20 inch line between Toronto and Montreal were sandblasted.

A program of upgrading by hydrostatic re-testing of the original pipeline was commenced. A total of 270.4 miles were retested in 1968, consisting of 192 miles in Saskatchewan, 17.4 miles in Manitoba, and 61 miles in Ontario.

This upgrading will enable the Company to operate the original lines at a significantly increased throughput capacity, and will ensure that these sections of the line continue to meet latest pipeline safety standards.

On the western section of the line, turbine compressor units of 12,100 horsepower each were added at Cabri, Regina and Moosomin in Saskatchewan, and Portage La-Prairie in Manitoba. Between Toronto and Montreal, reciprocating units of 3,000 horsepower each were added at Bowmanville, Cobourg, Belleville and Brockville. In addition, modifications to the turbines at Swastika and Barrie provided an additional 3,400 horsepower at each location.

1969 Construction

It is presently estimated that the Company's 1969 construction will require expenditures of approximately $60,000,000.

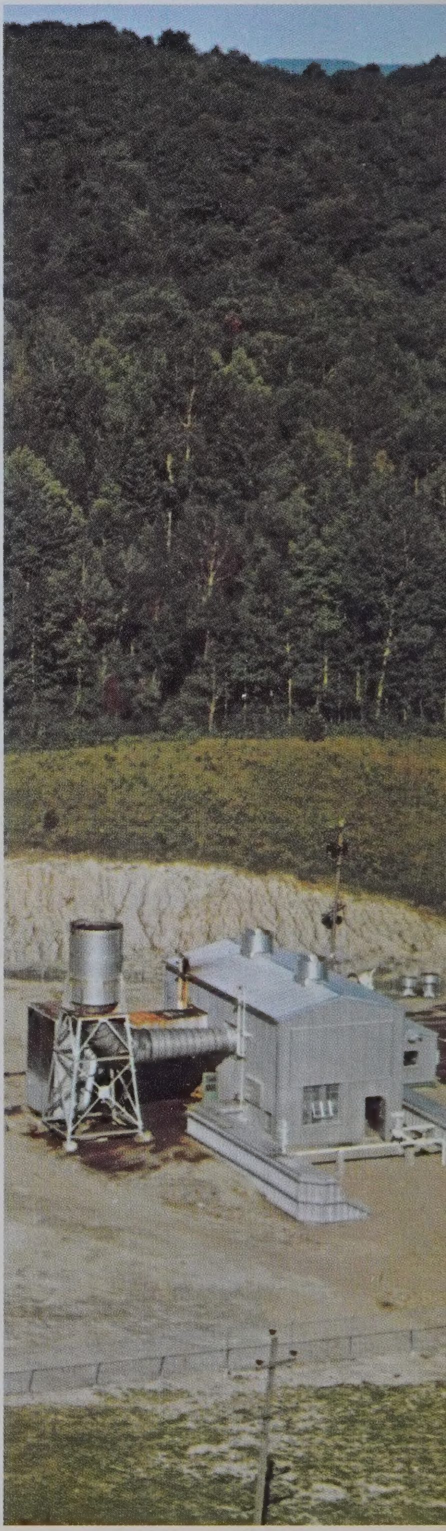
Subject to approval by regulatory authorities the Company proposes in 1969 to build 166.7 miles of 36 inch loop line in Saskatchewan and Manitoba including loop line on the Emerson Extension. The pipeline upgrading program will be expanded in 1969 because of its significant effect on efficiency and throughput of the system. The sections to be upgraded include 462 miles in western Canada, 517 miles in northern Ontario, and 110.5 miles between Maple, Ontario and Niagara Falls, Ontario.

A total of 36,300 horsepower in new compression will be added to the Company's system in western Canada.

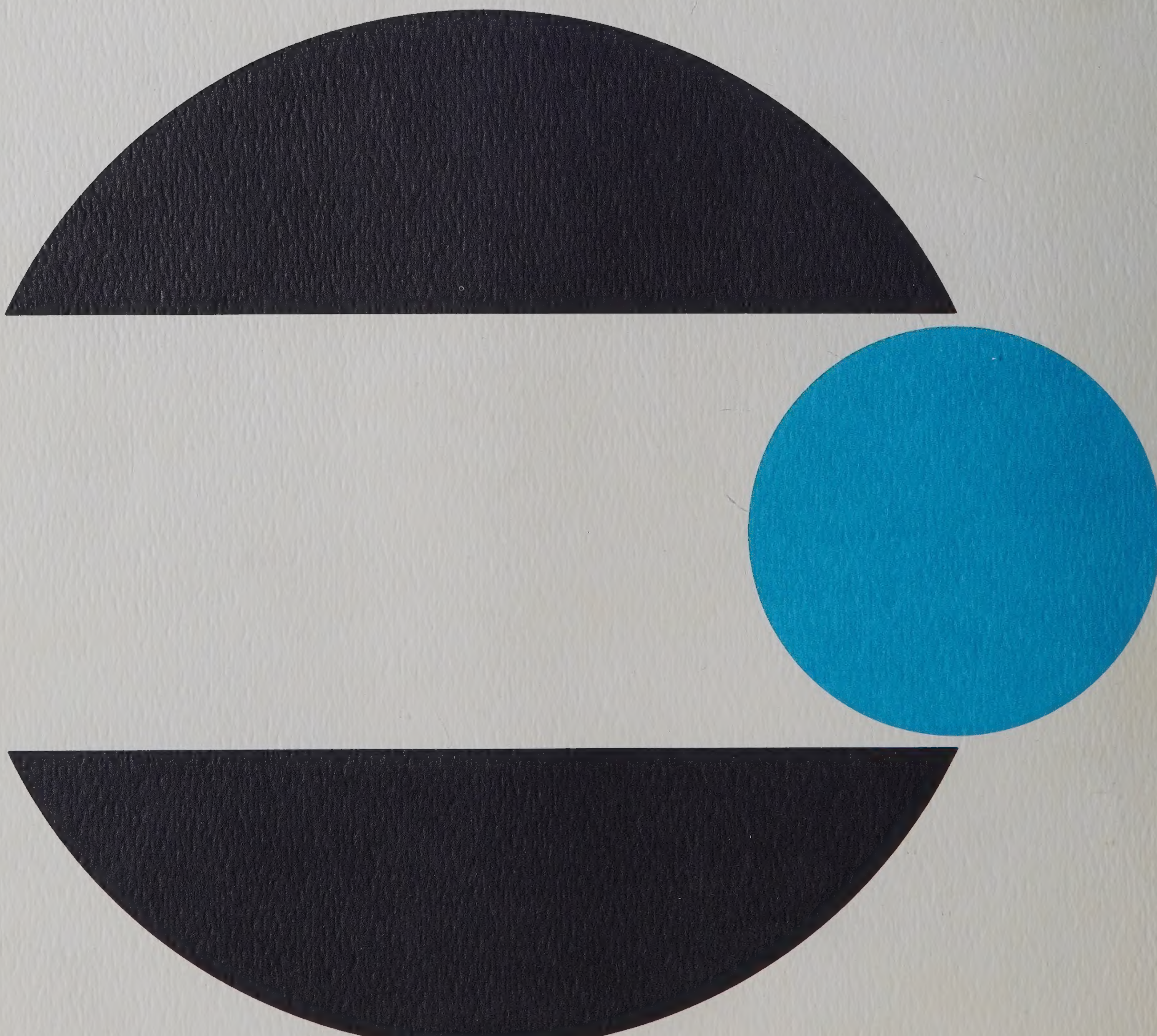
Operations

Some idea of the responsibility resting in the hands of individual TransCanada employees may be seen from the fact that gross plant investment has increased from $262,087,000 in 1959 to $731,455,000 in 1968. In 1959 plant investment per employee was $372,000. By 1968 plant investment per employee had risen to $653,000. In 1959 the average number of employees of TransCanada was 704. The 1968 average number employed was 1,121. Another measure of the efficiency of the operations department may be seen from the fact that in 1959 operating expenses per Mcf of gas delivered were 35.29 cents while in 1968 operating expenses per Mcf of gas delivered were 30.49 cents.

Shareholders desiring further information on TransCanada PipeLines may obtain a copy of the booklet "Operating and Statistical Information 1959-1968" by writing directly to R. G. Wall, Vice-President and Treasurer, TransCanada PipeLines, 150 Eglinton Avenue East, Toronto 12, Ontario.



Natural gas turbine driven compressors at a remote operated station in northern Ontario.



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